Valley Community Services Board

Staunton, Virginia

Financial Statements

Year Ended June 30, 2006

VALLEY COMMUNITY SERVICES BOARD

STAUNTON, VIRGINIA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

VALLEY COMMUNITY SERVICES BOARD

- Cities of Waynesboro/Staunton, Counties of Augusta/Highland
  - Committees: Personnel, Finance, Planning, Public Information
  - VCSB Board of Directors
    - W. J. Thomas, MBA, Executive Director
      - Tom Rose, SPHR, Human Resources Officer
      - Lynn Litten, Administrative Assistant
      - A. E. Dabney, Building/Grounds
      - W.S. Stewart, LCSW, Director, Behavioral Healthcare Services
        - Crisis Intervention/Access Services
          - Access/Intake Services
        - Mental Health Residential Services
          - Supported Living
        - PACT Program
        - Adult Case Management Services
          - Shenandoah Clubhouse
        - Deaf Services
        - Child/Family Services
          - InHome Services
          - Prevention/HIV/AIDS
          - Day Treatment
          - TANF
          - Shenandoah Detention Center
          - Child/Family Outpatient Services
          - Highland County
        - Adult Outpatient Services
          - Mental Health Outpatient
          - Substance Abuse Services
          - SA Supportive Residential
          - MH\SA Criminal Justice Services
          - New Hope Detox
      - Brenda Sasser, B.S., Director, Mental Retardation Services
        - Case Management Services
          - Family Support Services
        - Day Support Services
          - Community Participation
          - Supported Employment
          - Highland County Day Program
        - Early Intervention Services (LIFT) 0-3 Years
          - Child Case Management Services
          - Infant Education
        - Residential Services
          - ICF/MR (2)
          - Greenville Avenue Residence
          - Orchard Lane Day Program
        - Community Support Services
          - Supported Living Program
          - OBRA
          - In-Home Services
          - Specialized Foster Care
        - Service Coordination
      - Carolyn Dull, BS, CPA, Chief Financial Officer
        - Accounting Manager
          - Payroll
          - Accounts Payable
          - Organizational Payee Program
          - Accounting
          - Procurement
        - Reimbursement
        - Administrative Support Services
        - Managed Care Coordinator
        - Eligibility Worker
        - Transportation
      - Lillian Mezey, Medical Director
        - Medical Services
        - Medical Services
        - Pharmacy
        - Nursing Services
        - PAP Services
      - VACANT, Director QA\QI
        - Quality Assurance/ Utilization Management
        - Management Information Systems
        - Medical Records

September-06

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MISSION STATEMENT

Valley Community Services Board provides community based mental health, mental retardation and substance abuse services to the citizens of Augusta and Highland Counties, and the Cities of Staunton and Waynesboro. Within its resources VCSB provides an integrated array of services in a climate of partnership designed to assist consumers in achieving their treatment and program goals.

BOARD MEMBERSHIP

James Halasz, Chairperson
James Mahoney, Vice-Chairperson
Joseph Davis, Treasurer
Carol Brunty
Karen Cochran
John Downey
Dwight Foster
Brent Frank
Anita Harris
Tom Ramsburg
Susan Roberts
Stella Sabados
Bobbie Sprouse
Mary Stephenson

BOARD MANAGEMENT

William J. Thomas, Executive Director
W. Scott Stewart, Behavioral Healthcare Services Director
James Krag, M.D., Senior Psychiatrist
Brenda Sasser, Mental Retardation Services Director
Nancy Curry, Quality Assurance Director
Carolyn Dull, Chief Financial Officer

COMPUTER SYSTEM INFORMATION

Valley CSB uses CMHC Systems software, an integrated management information system for human service organizations that integrates clinical, financial, demographic, and staff data. Valley CSB Computer system also includes:

- One Dell Server with Win 2k providing authentication and file sharing services.
- One Dell Server with Win 2k providing email and authentication.
- One Dell Server with Win 2k BUI interface for CMHC.
- Approximately 225 desktops PCs running MS Windows 2000, XP Pro with Office 2000.
- Dial-up connectivity between remote sites and home office
- Internet connectivity via Ntelos provider.

FACILITIES

85 Sanger's Lane, Staunton – Mental Health, Mental Retardation & Substance Abuse Services
446 Commerce Road, Staunton – Clubhouse Program
704B Richmond Road, Staunton – Mental Retardation Services
123 W. Frederick Street, Staunton – PACT Program
61 Orchard Lane, Staunton – MR Day Program
32 Angus Drive, Waynesboro – Group Home
847 Lee Jackson Highway, Staunton – Group Home
Western State Grounds, Staunton – Detox Unit
Monterey – Adult Services
1206 Red Top Orchard Road, Waynesboro – Group Home
117 W. Frederick Street, Staunton – Mental Health Residential Services

CONTACT INFORMATION

You may contact Valley Community Services Board by:

Telephone:	(540) 887-3200
Toll Free:	(800) 601-8686
TDD:	(540) 887-3246
FAX:	(540) 887-3245
MAIL:	85 Sanger's Lane Staunton, Virginia 24401

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
VALLEY COMMUNITY SERVICES BOARD
STAUNTON, VIRGINIA

We have audited the accompanying financial statements of the business-type activities of the Valley Community Services Board, as of and for the years ended June 30, 2006 and June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Valley Community Services Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the organization's 2006 financial statements, dated August 18, 2006, and we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Standards for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia, Office of the Auditor of Public Accounts; and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Valley Community Services Board as of June 30, 2006 and June 30, 2005 and respective changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of the Valley Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Valley Community Services Board basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information and other supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robinson, Farmer, Cox Associates

Verona, Virginia
August 18, 2006

The management of the Valley Community Services Board offers readers of our financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. Since the Board is engaged only in business-type activities, its basic financial statements are comprised of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private-sector business.

The statement of net assets presents information on the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The statement of revenues, expenses and changes in fund net assets presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The basic enterprise fund financial statements can be found on pages 7 through 9 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 21 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Board's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in Note 5 of the Notes to Financial Statements.

Financial Highlights

- This fiscal year showed marked improvements in revenue billing and collection with only a slight increase in operating expenses, resulting in a very positive increase in net assets. Accounts Receivable balances were reduced by $967,716 (41 percent) from FY 2005 to FY 2006 year-end.

- The Child and Adolescent Day Treatment Program expanded from 3 to 8 schools, resulting in a revenue collection increase of $587,402 (303 percent) from the prior year.

- With the second Intermediate Care Facility for the Mentally Retarded (ICF/MR) operating for a full year, the cost settlement from submission of the two DMAS cost reports resulted in payments to Valley totaling $662,142.

- A small parcel, approximately .9 acre, of the Grandview ICF/MR unused land was sold for $93,827.

- Interest Income increased by $63,933 (111 percent) due to the improved cash flow and expanded services.

- The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by $5,740,444 (net assets). Of this amount $4,839,710 (unrestricted net assets) may be used to meet the Board's ongoing obligations to customers and creditors.

- The Board's total net assets increased by $2,611,963. This is attributable to improved revenue billing and collections, expansion of services in the MH School Day Treatment Program, and the cost settlement payments for the two ICF/MRs.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a Board's financial position. In the case of the Board, assets exceeded liabilities by $5,740,444 at the close of the most recent fiscal year. This increase in net assets is a good indicator that the Board's financial position is stable.

A large portion of the Board's assets (47 percent) reflects its investment in capital assets, less any related accumulated depreciation. The Board uses these capital assets primarily to provide services to its participating localities; consequently, these assets are not available for future spending. It should be noted that the resources needed to repay the debt related to the capital assets must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Assets	
	2006	**2005**
Current and other assets	$ 5,856,978	$ 3,514,181
Capital assets	5,217,481	5,240,428
Total assets	$ 11,074,459	$ 8,754,609
Long-term liabilities outstanding	$ 4,515,990	$ 4,620,594
Other Liabilities	818,025	1,005,534
Total Liabilities	$ 5,334,015	$ 5,626,128
Net assets:		
Invested in capital assets, net of related debt	$ 900,734	$ 819,490
Unrestricted	4,839,710	2,308,741
Restricted	-	250
Total net assets	$ 5,740,444	$ 3,128,481

At the end of the current fiscal year, the Board is able to report positive balances in both categories of net assets. The same situation held true for the prior fiscal year.

	Change in Net Assets	
	2006	2005
Revenues:		
Operating Revenues	$ 11,281,936	$ 8,252,012
Operating Contributions	6,651,524	6,800,928
Other Revenue	252,131	89,728
Total revenues	$ 18,185,591	$ 15,142,668
Expenses:		
Operating Expenses	$ 15,083,124	$ 14,417,111
Depreciation Expenses	274,729	191,076
Other Expenses	215,775	187,810
Total expenses	$ 15,573,628	$ 14,795,997
Increase in net assets	$ 2,611,963	$ 346,671
Net assets, beginning of year, as adjusted	3,128,481	2,781,810
Net assets, end of year	$ 5,740,444	$ 3,128,481

The Board's net assets increased by $2,611,963 during the current year. Operating Contributions decreased by $149,404 (2 percent) while Operating Expenses increased $666,013 (4.6 percent) from FY 2005 levels. The net decrease in Operating Contributions was in both state and federal funding. Operating Expenses increased due to agency salary cost of living adjustments, the creation of additional budgeted employees to provide direct service, and new vehicles to provide client and/or staff transportation for the expanded programs.

Capital Asset and Debt Administration

Capital Assets - The Board's investment in capital assets as of June 30, 2006 amounts to $5,217,481 (net of accumulated depreciation). Investment in Capital Assets increased during the year largely because of vehicle purchases. Below is a comparison of the items that make up Capital Assets as of June 30, 2006 with that of June 30, 2005.

	2006	2005
Land	$ 470,005	$ 479,218
Building and Improvements	4,498,069	4,484,619
Equipment	47,955	39,978
Vehicles	1,016,431	781,051
Leasehold Improvements	35,340	35,340
Construction in progress	-	-
Total Capital Assets	$ 6,067,800	$ 5,820,206

Long-Term Debt - Total Notes Payable at June 30, 2006 was $4,207,154, which includes obligations for Grandview ICF/MR and the new main facility at Sanger's Lane. Other long-term obligations of the Board include accrued vacation pay. More detailed information on the Board's long-term liabilities is presented in Note 4 of the Notes to the Financial Statements.

Review of Operations

Operating Revenues - Operating revenues are the amount of revenue received from providing client services. These revenues increased 36.7% from the prior year primarily due to expanded service provision in the school programs ($587,402 increase), the operation of the new ICF/MR facility at capacity for a full year ($431,393 increase) and the increase in the Medicaid rate for case management services from $260 per month to $326.50 per month ($365,019 increase), along with small increases in a variety of Medicaid Waiver rates and other service provision.

Operating/Depreciation Expenses - Operating expenses consist of personnel and contractual expenses, facility costs, and supplies. There was an increase of 5.1% over the prior year due to hiring additional service providers, the associated program and administrative expenses, and a Board-wide salary adjustment.

Non-Operating Income and Expenses - Non-operating income includes state and local appropriations, federal grants, and miscellaneous income. There was a 0.22% decrease in non-operating income from the prior year. This net decrease was due to:

- A net reduction of $53,854 in General funds due to a reduction to provide match for the increase in the Medicaid case management rate and an increase to support the COLA adjustment
- A net reduction in Federal funding of $121,743 due to the transfer of a regional Substance Abuse Facility Diversion program and funding to Harrisonburg-Rockingham Community Services Board, slight reductions in Federal funding due to the Federal Budget, and the return of unspent Federal Funds in the Substance Abuse Co-Occurring program due to late receipt of funds and implementation.
- The decreases were offset by increases in Interest/Miscellaneous Income

Contacting the Board's Financial Management

This financial report is designed to provide a general overview of the Community Services Board's finances for our citizens, clients, and taxpayers and to demonstrate accountability for the money received. Any questions concerning this report or requests for additional financial information should be made to Carolyn W. Dull, CPA, Chief Financial Officer, 85 Sanger's Lane, Staunton, Virginia, 24401, email cdull@vcsb.org or telephone (540) 887-3200.

BASIC FINANCIAL STATEMENTS

Valley Community Services Board

Statement of Net Assets
At June 30, 2006
(With Comparative Totals for 2005)

	2006	2005
ASSETS		
Current Assets:		
Petty cash	$ 3,290	$ 4,290
Cash and cash equivalents	4,318,586	964,146
Restricted cash and cash equivalents-Rural Development	78,840	78,840
Accounts receivable, less allowance for uncollectibles	1,376,263	2,343,979
Due from other governmental units	32,008	75,182
Prepaid items	47,991	47,744
Total current assets	$ 5,856,978	$ 3,514,181
Capital Assets		
Capital assets, less accumulated depreciation	5,217,481	5,240,428
Total assets	$ 11,074,459	$ 8,754,609
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 168,825	$ 334,229
Accrued payroll	372,598	361,535
Amounts held for others	120,914	117,867
Deferred revenue	46,096	87,711
Notes payable	109,592	104,192
Total current liabilities	$ 818,025	$ 1,005,534
Noncurrent Liabilities:		
Notes payable	$ 4,207,154	$ 4,316,747
Compensated absences	308,836	303,847
Total long-term liabilities	$ 4,515,990	$ 4,620,594
Total liabilities	$ 5,334,015	$ 5,626,128
Net Assets:		
Invested in capital assets, net of related debt	$ 900,734	$ 819,490
Unrestricted	4,839,710	2,308,741
Restricted	-	250
Total net assets	$ 5,740,444	$ 3,128,481

The accompanying notes to financial statements are an integral part of this statement.

Valley Community Services Board

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006
(With Comparative Totals for 2005)

	2006	2005
Operating Revenue:		
Net patient service revenue	$ 11,176,378	$ 8,173,513
Contracts	105,558	78,499
Total operating revenue	$ 11,281,936	$ 8,252,012
Operating Expenses:		
Salaries and wages	$ 8,029,725	$ 7,681,800
Fringe benefits	2,246,626	2,130,911
Contractual services	407,380	345,240
Leases and rentals	464,143	510,463
Depreciation	274,729	191,076
Other charges and supplies	3,935,250	3,748,697
Total operating expenses	$ 15,357,853	$ 14,608,187
Operating income (loss)	$ (4,075,917)	$ (6,356,175)
Non-operating income (expense):		
Operating grants:		
Commonwealth of Virginia	$ 4,948,925	$ 5,002,779
Federal government	1,354,399	1,476,142
Participating localities	348,200	322,007
Contributions	5,153	7,337
Interest income	121,585	57,652
Miscellaneous income	125,393	24,739
Interest expense	(215,775)	(187,810)
Total non-operating income (loss)	$ 6,687,880	$ 6,702,846
Change in net assets	$ 2,611,963	$ 346,671
Net assets, beginning of year, as adjusted	3,128,481	2,781,810
Net assets, end of year	$ 5,740,444	$ 3,128,481

The accompanying notes to financial statements are an integral part of this statement.

Valley Community Services Board

Statement of Cash Flows
Year Ended June 30, 2006
(With Comparative Totals for 2005)

	2006	2005
Cash flows from operating activities:		
Receipts from customers	$ 12,187,321	$ 7,547,606
Payments to suppliers	(4,969,379)	(5,636,145)
Payments to and for employees	(10,260,299)	(9,767,774)
Total cash flows from operating activities	$ (3,042,357)	$ (7,856,313)
Cash flows from noncapital and related financing activities:		
Government grants	$ 6,715,414	$ 6,725,746
Other	45,895	32,076
Total cash flows from noncapital and related financing activities	$ 6,761,309	$ 6,757,822
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (270,256)	$ (1,032,974)
Proceeds from sale of assets	103,127	3,241
Principal payments on long-term debt	(104,193)	(301,334)
Proceeds from indebtedness	-	1,849,462
Interest paid on indebtedness	(215,775)	(201,556)
Total cash flows from capital and related financing activities	$ (487,097)	$ 316,839
Cash flows from investing activities:		
Interest income	$ 121,585	$ 57,652
Transfers to restricted cash	-	(78,840)
Total cash flows from investing activities	$ 121,585	$ (21,188)
Net increase (decrease) in cash and cash equivalents	$ 3,353,440	$ (802,840)
Cash and cash equivalents, beginning of year	968,436	1,771,276
Cash and cash equivalents, end of year	$ 4,321,876	$ 968,436
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (4,075,917)	$ (6,356,175)
Adjustments to reconcile excess of revenues over expenses to cash provided by operations:		
Depreciation	274,729	191,076
(Gain) loss on sale/abandonment of assets	-	914
Changes in assets and liabilities:		
Accounts receivable	967,716	(707,366)
Prepaid items	(247)	21,896
Accounts payable and accrued expenses	(154,343)	(1,060,722)
Compensated absences	4,989	16,090
Amounts held for others	3,047	(5,266)
Deferred revenue	(62,331)	43,240
Cash flows from (to) operating activities	$ (3,042,357)	$ (7,856,313)

The accompanying notes to financial statements are an integral part of this statement.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and Purpose

The Valley Community Services Board (the Board) operates as an agent for the Counties of Augusta and Highland and Cities of Staunton and Waynesboro in the establishment and operation of community mental health, mental retardation and substance abuse programs. Substantially all of the Board's funding is from service fees, the Commonwealth of Virginia, the Counties of Augusta and Highland and the Cities of Staunton and Waynesboro. In addition, the Board provides a system of community mental health, mental retardation and substance abuse services which relates to and is integrated with existing and planned programs.

For financial reporting purposes, these financial statements include all organizations for which the Board is considered financially accountable in accordance with GASB Statement No. 14, "The Financial Reporting Entity". Control by or dependence on the Board is determined on the basis of budget adoption, ownership of assets, or the Board's obligation to fund any deficits that may occur.

The Board is not considered a component unit of the localities it serves since none of these entities has oversight responsibility, or is legally obligated to fund any deficit of the Board.

The Board is a member of a Virginia nonprofit corporation, the Behavioral Healthcare Partnership of Virginia, Inc.

The Board procures workshop services through the purchase of service agreement as allowed by the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services.

In accordance with 37.2-504 (subsection A.18) of the Code of Virginia, the CSB acts as its own fiscal agent, as authorized to do so by the Counties of Augusta and Highland, and the Cities of Staunton and Waynesboro.

B. Basic Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis—For State and Local Governments*. As a result, the financial statements now include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Board's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements. Since the Board is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Board, the basic financial statements and required supplementary information consist of:

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Basic Financial Statements (Continued)

- Management's discussion and analysis
- Enterprise fund financial statements
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
  - Notes to Financial Statements

C. Enterprise Fund Accounting

The Valley Community Services Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board and the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services. For financial reporting purposes, the Board utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

D. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue under third party payor agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

E. Financial Assistance

The Board is required to collect the cost of services from third party sources and those individuals who are able to pay. However, the payment of amounts charged is based on individual circumstances and unpaid balances are pursued to the extent of the patient's ability to pay. The Board has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual patients. Because the Board does not pursue the collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

F. Investments

Investments are stated at fair value.

G. Allowance for Uncollectible Accounts

The allowance for doubtful accounts amounted to $421,385 at June 30, 2006 and $216,779 at June 30, 2005. The allowances were determined based on historical collections.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

H. Capital Assets

Capital Assets are recorded at cost. Depreciation has been provided over the estimated useful lives using the straight-line method. Donated capital assets are recorded at their estimated fair market value at the time of the gift.

I. Restricted Assets

The Board segregates monies representing restricted donations which have not yet been expended for their purpose.

J. Budget Process

It is the policy of the Valley Community Services Board that the Board of Directors annually adopts an operating budget which identifies anticipated revenues and expenditures. The Board's Fiscal Committee oversees the budget development process, which includes submitting budget requests to local governments and solicits public comments on the proposed budget. The operating budget subsequently adopted by the Board of Directors serves as the basis for the Performance Contract with the Virginia Department of Mental Health, Mental Retardation, and Substance Abuse Services. Throughout the year, the Fiscal Committee may authorize budget revisions and make quarterly reports to the full Board.

K. Inventory

The Board expenses all materials and supplies when purchased. Any items on hand at year end are not material in amount and therefore are not shown in the financial statements.

L. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less.

M. Compensated Absences

The Board's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. All employees earn the same sick leave regardless of the length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

Employees terminating their employment are paid their accumulated annual leave up to the maximum limit. Unused sick leave is not paid at the date of separation.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of annual leave recognized as expense is the amount earned during the year.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

N. Claims and Judgments

Federal programs in which the Board participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Comparative Totals

Comparative amounts for the prior year are presented for information purposes only. Certain reclassifications have been made to the prior year amounts to provide a more comparative presentation with the current year financial reporting presentation.

NOTE 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS:

Deposits - All cash of the Board is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments - Statutes authorize the Board to invest in obligations of the United States, of agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

NOTE 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

The Board's investment policy for credit risk is consistent with the investments allowed by statute as detailed above.

The Board's rated debt investments as of June 30, 2006 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

Board's Rated Debt Investments' Values

	Fair Quality Ratings				
	AAA	**AA**	**A**	**A1**	**Unrated**
Local Government Investment Pool	$ 2,859,012	$ -	$ -	$ -	$ -
Total	$ 2,859,012	-	-	-	-

NOTE 3-OPERATING LEASES:

The Board leases offices, clinics and facilities for residential services under various lease agreements. Lease expense for the years ended June 30, 2006 and 2005, amounted to $464,143 and $510,463, respectively.

At June 30, 2006, the approximate future minimum annual operating lease commitments (exclusive of projected increases for Consumer Price Index amounts) are as follows:

Years Ended June 30,	Amount
2007	$ 411,442
2008	73,721
2009	60,482
2010	62,297
2011	62,601
Total	$ 670,543

NOTE 4—NOTES PAYABLE:

A summary of notes payable at June 30, 2006 follows:

$325,000 note payable dated July 30, 2003 to Planters Bank & Trust, secured by real property, 119 monthly payments of $1,843 and 1 payment of $190,484 when note matures on July 30, 2013, interest at 3.25%.	$ 289,690
$1,500,000 rural development loan dated April 26, 2004, maturing April 26, 2044, monthly payments of $6,570, interest at 4.25%.	1,483,215
$2,658,188 note payable dated December 10, 2004 to Planters Bank & Trust, maturing ten years from date of final drawdown, monthly payments of $18,270, interest at 5.49%.	2,543,841
Total notes payable	$ 4,316,746
Less current portion	109,592
Notes payable excluding current portion	$ 4,207,154

Annual requirements to amortize notes payable and related interest are as follows:

Years Ended June 30,	$325,000 Note Payable dated July 30, 2003 Principal	Interest	$1,500,000 Rural Development Loan Principal	Interest	$2,658,188 Note Payable dated Principal	Interest	Total Principal	Interest
2007	$ 12,897	$ 9,224	$ 15,075	$ 63,765	$ 81,620	$ 137,624	$ 109,592	$ 210,613
2008	13,322	8,799	15,739	63,101	86,216	133,028	115,277	204,928
2009	13,762	8,359	16,432	62,408	91,070	128,174	121,264	198,941
2010	14,216	7,905	17,156	61,684	96,198	123,046	127,570	192,635
2011	14,685	7,436	18,703	60,137	101,614	117,630	135,002	185,203
Thereafter	220,808	23,951	1,400,110	1,275,757	2,087,123	364,494	3,708,041	1,664,202
Total	$ 289,690	$ 65,674	$ 1,483,215	$ 1,586,852	$ 2,543,841	$ 1,003,996	$ 4,316,746	$ 2,656,522

NOTE 5—DEFINED PENSION BENEFIT PLAN:

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living increase beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of salary. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be assumed by the employer. In addition, the Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Board's contribution rate for the fiscal years ended June 30, 2006 and June 30, 2005 were 1.5% and 1.5%, respectively, of the annual covered payroll.

NOTE 5—DEFINED PENSION BENEFIT PLAN: (CONTINUED)

C. Annual Pension Cost

		Board Retirement Plan
Contribution rates:		
Employer		1.5%
Plan members [1]		5.00%
Annual pension cost	$	94,096
Contributions made	$	94,096
Actuarial valuation date		6/30/05
Actuarial cost method		Entry Age Normal
Amortization method		Level percentage of pay, open
Payroll growth rate		3.00%
Remaining amortization period		21 years
Asset valuation method		Modified Market
Actuarial assumptions:		
Investment rate of return*		7.50%
Projected salary increases*		
Non LEO Employees		3.50% to 5.73%
LEO Employees		3.50% to 4.71%
Cost-of-Living adjustment		2.50%
*Includes inflation at		2.50%

[1] This member contribution has been assumed by the employer.

NOTE 5—DEFINED PENSION BENEFIT PLAN: (CONTINUED)

A. Annual Pension Cost (Continued)

For 2006, the Board's annual pension cost of $94,096 was equal to the Board's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

Three-Year Trend Information for
Valley Community Services Board

Fiscal Year Ending	Annual Pension Cost (APC)[1]	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	$ 55,069	100%	-
June 30, 2005	89,751	100%	-
June 30, 2006	94,096	100%	-

[1] Employer portion only

NOTE 6—CAPITAL ASSETS:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	39
Equipment	5 – 10
Vehicles	5
Leasehold improvements	10

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Capital assets are comprised of the following:

	At June 30, 2006	At June 30, 2005
Land	$ 470,005	$ 479,218
Buildings and improvements	4,498,069	4,484,619
Equipment	47,955	39,978
Vehicles	1,016,431	781,051
Leasehold improvements	35,340	35,340
Subtotal	$ 6,067,800	$ 5,820,206
Less: accumulated depreciation	(850,319)	(579,778)
Net capital assets	$ 5,217,481	$ 5,240,428

Capital asset purchases exceeding $5,000 are capitalized and depreciated using the straight-line method. Depreciation expense amounted to $274,729 and $191,076 for the years ended June 30, 2006 and 2005, respectively.

NOTE 7—LOCALITIES' CONTRIBUTIONS:

Contributions from localities were as follows:

	Years Ended June 30, 2006	Years Ended June 30, 2005
County of Highland	$ 5,807	$ 5,249
County of Augusta	112,908	103,392
City of Waynesboro	89,002	82,213
City of Staunton	140,483	131,153
Total	$ 348,200	$ 322,007

NOTE 8—RISK MANAGEMENT:

The Board is a member of the VACO for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each member of these risk pools jointly and severally agrees to assume, pay and discharge any liability. The board pays contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the Board and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Board may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Board continues to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage for each of the past three fiscal years.

NOTE 9—DEFERRED COMPENSATION PLAN:

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation plan is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by CitiStreet.

NOTE 10—RESTRICTED NET ASSETS:

Net assets are restricted as follows:

		June 30, 2006		June 30, 2005
Paula Kaiser Memorial fund	$	-	$	250
Total Restricted Net Assets	$	-	$	250

NOTE 11—DEFERRED REVENUE:

Deferred revenue represents amounts for which asset recognition criteria have been met, but the revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts are measurable, but not available. At June 30, 2006, there was $46,096 in deferred revenue as a result of receipt of prepaid client fees and unearned grant revenue.

NOTE 12—LINE OF CREDIT:

The Board has an unsecured line of credit agreement with a bank that permits the Board to borrow up to $750,000 at 8.75%. As of June 30, 2006 the Board had a balance outstanding of $0 under this agreement. Interest paid during the year ended June 30, 2006 totaled $0.

NOTE 13—NET PATIENT SERVICE REVENUE:

Patient service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for uncollectible accounts and contractual adjustments are deducted to arrive at net patient service revenue.

Net patient service revenues were from the following sources:

		At June 30, 2006		At June 30, 2005
Medicaid	$	10,580,280	$	7,654,508
Direct client		240,789		180,482
Third party		246,607		152,449
Medicare		52,144		90,041
Other		56,558		96,033
Total	$	11,176,378	$	8,173,513

NOTE 14—ACCOUNTS RECEIVABLE:

At June 30, 2006 the Board had accounts receivable due from the following primary sources:

	At June 30, 2006	At June 30, 2005
Medicaid	$ 1,136,641	$ 1,931,551
Direct client	486,861	310,435
Third party	58,927	121,725
Medicare	49,174	56,237
Other	66,045	140,810
Total	$ 1,797,648	$ 2,560,758
Less: Allowance for uncollectibles	(421,385)	(216,779)
Net accounts receivable	$ 1,376,263	$ 2,343,979

NOTE 15—DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from state and federal grants totaled $32,008 at June 30, 2006.

NOTE 16—SUBSEQUENT EVENT:

In August 2006, the Board purchased property located in Waynesboro, Virginia at a purchase price of $359,325.

SUPPORTING SCHEDULES

Valley Community Services Board

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal* Catalogue Number		Expenditures
U.S. Department of Agriculture:			
Pass-through payments:			
Consumer Services:			
Child and Adult Care Food Program	10.558	$	23,857
Total Department of Agriculture		$	23,857
U.S. Department of Health and Human Services:			
Pass-through payments:			
Virginia Department of Social Services			
Temporary Assistance for Needy Families	93.558	$	143,967
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:			
Alcohol and Drug Abuse & Mental Health Services Block Grant:			
Alcohol and Drug Abuse & Mental Health Services Block Grant	93.959	$	836,417
Substance Abuse Prevention/Treatment Services Block Grant	93.958		124,278
SA & MH Services Projects of Regional & National Significance	93.243		22,926
Path LTR	93.150		27,047
Emergency Preparedness and Response	93.003		10,000
Total Department of Health and Human Services		$	1,164,635
U.S. Department of Justice:			
Pass-through payments:			
Department of Criminal Justice Services			
Needs of Juvenile Offenders	16.523	$	69,908
Community Alliance for Drug Resistance	16.728		95,999
Total Department of Justice		$	165,907
Total Federal Assistance		$	1,354,399

Reconciliation with Exhibit 2, "Statement of Revenues, Expenses and Changes in Net Assets":

Total Federal expenditures, per above schedule	$	1,354,399
Less: unexpended balance substance abuse		0
Total Federal revenues, per Exhibit 2	$	1,354,399

NOTE A-BASIS OF PRESENTATION

The accompanying schedule of federal expenditures includes the federal grant activity of the Valley Community Services Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Valley Community Services Board

Supplemental Information for the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services
Reconciliation of Revenue and Expenditures and Changes in Net Assets
Year Ended June 30, 2006

	Revenues	Federal Revenues	Expenses
Per 4th Quarter Report:			
Mental Health	$ 7,848,860	$ 268,550	$ 6,997,126
Mental Retardation	8,333,682	-	6,434,530
Substance Abuse	1,385,056	908,666	1,937,977
Total	$ 17,567,598	$ 1,177,216	$ 15,369,633
Amounts per audited financial statements	$ 16,831,192	$ 1,354,399	$ 15,573,628
Adjustments:			
TANF not included in 4th quarter report	-	(143,967)	(143,967)
Other	(3,324)	-	(14,315)
Cadre	-	(95,999)	(95,993)
JBAIG accrual in FY06 reimbursed in FY 07	-	(6,340)	-
Accrued net personnel expenses	-	-	(16,063)
Paula Kaiser	(100)	-	-
Net accrued fees revenue	617,163	-	-
USDA Food Classified as Federal	23,857	(23,857)	-
Administrative revenue & expense	(23,446)	-	(23,446)
Accrued net rent/principal payments	-	-	104,194
JGAIG accrual in FY05 reimbursed in FY 06	-	44,318	-
Depreciation expense	-	-	(274,729)
Gain on disposal of fixed asset	(84,103)	-	-
Bad debt	206,359	-	-
Prior year balances returned	-	40,694	-
Prior year federal balances	-	17,968	-
Capitalized expenditures	-	-	270,324
Specialized Funding - Emergency Res	-	(10,000)	(10,000)
Total per 4th quarter reports as reconciled	$ 17,567,598	$ 1,177,216	$ 15,369,633

VALLEY CSB
STANDARD SCHEDULE OF
CURRENT PROPERTY & CASUALTY INSURANCE
FYE 6/30/06

Insurance Coverage	Ins. Co. / Agent/ Policy #	Policy Period	Limits of Liability		Ded.	Annual Premium
Automobile Liability Physical Damage	Co:VML Pool Ag: Pol. #:VMLPPR000603	7/1/05-6/30/06	BI/PD Uninsured Motorist Medical Payments ACV-Comprehensive ACV-Collision	$ $25/50/20 $10K	$50 $250	$25,710
Boiler & Machinery	Co:VML Pool Ag: Pol. #:VMLPPR000603	7/1/05-6/30/06	Direct Damage Business Income Extra Expense	$1,000,000 $ $	$1,000	$744
Crime	Co:VML Pool Ag: Pol. #:VMLPPR000603	7/1/05-6/30/06	Employee Dishonesty Forgery or Alteration Money & Securities Money Orders	$500,000 $500,000 $ $	$2,500 $2,500	$2,938
Electronic Data Processing	Co:VML Pool Ag: Pol. #:VMLPPR000603	7/1/05-6/30/06	Hardware Software Extra Expense	$660,000 $incl $incl	$250	Inc in Property premium
Garage Liability	Co: Ag: Pol. #:		Garage Liability Garage keepers (Direct or Legal Liability?)	$ $		
General Liability	Co:VARISK2 Ag: Pol. #:	7/1/05-6/30/06	Aggregate Occurrence Medical Employee Benefits	$N/A $1,000,000 $ $	$1,000	$8,415
Medical Malpractice	Co: VARISK2 Ag: Pol. #:	7/1/05-6/30/06	Occurrence Aggregate	$1,750,000 $ unlimited	$1,000	$13,524
Public Officials Liability	Co:VARISK2 Ag: Pol #:	7/1/05-6/30/06	Occurrence Aggregate	$1,000,000 $	$1,000	Incl in Gen Liab
Property	Co:VML Pool Ag: Pol. #:VMLPPR000603	7/1/05-6/30/06	Real Property Personal Property Business Income	$5,880,000 $ $	$250	$23,827
Umbrella/Excess	Co:VML Pool Ag: Pol. #:VMLPPR000603	7/1/05-6/30/06	Occurrence Aggregate	$5,000,000 $	$250	$5,006
Workers Compensation	Co:VACO Ag: Pol. #:VA-VA-092C-03-WC	7/1/05-6/30/06	Each Accident Policy Limit – Disease Each Employee-Disease	$1,000,000 $1,000,000 $1,000,000	N/A	$61,340
Miscellaneous Coverage Blanket Accidental Health__________	Co: Market Ins. Co/Barger	7/1/05-6/30/06	**Accident/Health Agregate Limited**	**$50,000**		$2,540 **Total $144,044**

Valley Community Services Board

Client Statistics
Years Ended June 30,

	2006	2005	2004	2003	2002
Unduplicated Clients Served					
Mental Health	2,248	2,444	2,385	1,979	2,005
Mental Retardation	509	503	540	470	420
Substance Abuse	1,292	1,310	1,289	1,370	1,161
Total Unduplicated Clients Served	4,049	4,257	4,214	3,819	3,586
Mental Retardation Residential Client Days	9,440	8,232	7,130	7,425	7,004

Schedule 5

Valley Community Services Board

Schedule of Pension Funding Progress

Year Ended June 30, 2006

Actuarial Valuation Date (1)	Actuarial Value of Assets (AVA) (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL) (3-2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Covered Payroll (4)/(6) (7)
06/30/05 $	11,192,374 $	10,553,938 $	(638,436)	106.05% $	6,134,680	-10.41%
06/30/04	10,572,431	9,030,131	(1,542,300)	117.08%	5,801,869	-26.22%
06/30/03	10,023,323	8,142,472	(1,880,851)	123.10%	5,338,554	-35.23%
06/30/02	9,481,488	6,904,511	(2,576,977)	137.32%	4,830,418	-53.35%

COMPLIANCE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

BOARD OF DIRECTORS
VALLEY COMMUNITY SERVICES BOARD
STAUNTON, VIRGINIA

We have audited the financial statements of the business-type activities of the Valley Community Services Board as of and for the years ended June 30, 2006 and June 30, 2005, which collectively comprise Valley Community Services Board's basic financial statements and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Specifications for Audits of Authorities, Boards, and Commissions, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Valley Community Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Valley Community Services' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management in a separate letter dated August 18, 2006.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Verona, Virginia
August 18, 2006

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

BOARD OF DIRECTORS
VALLEY COMMUNITY SERVICES BOARD
STAUNTON, VIRGINIA

Compliance

We have audited the compliance of the Valley Community Services Board with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2006 and June 30, 2005. The Valley Community Services Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Valley Community Services Board's management. Our responsibility is to express an opinion on the Valley Community Services Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Valley Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Valley Community Services Board's compliance with those requirements.

In our opinion, the Valley Community Services Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2006 and June 30, 2005.

Internal Control Over Compliance

The management of the Valley Community Services Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Valley Community Services Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Verona, Virginia
August 18, 2006

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? ____ yes _x_ no

- Reportable conditions identified that are not considered to be material weaknesses? ____ yes _x_ none reported

Noncompliance material to financial statements noted? ____ yes _x_ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ____ yes _x_ no

- Reportable conditions identified that are not considered to be material weaknesses? ____ yes _x_ no

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ____ yes _x_ no

Identification of major programs:

CFDA Numbers		*Name of Federal Program or Cluster*
93.959	. . . .	Alcohol and Drug Abuse & Mental Health Services Block Grant

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? _x_ yes ____ no

Section II—Financial Statement Findings

None

Section III—Federal Award Findings and Questioned Costs

None

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